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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Consumer spending rose in nominal and real dollars, reflecting consumers' optimism and providing momentum for growth.

The U.S. Department of Commerce reported that nominal consumer spending rose by 0.6 percent in April 1990. This compares with a rise of 0.5 percent in March. Real spending, meanwhile, rose 0.3 percent in April after declining by 0.1 percent the previous month. The rise in consumer spending reflects consumers' continued optimism in spite of recent modest growth of the economy.

Real GNP grew more slowly in the first quarter of 1990 than previously estimated. The U.S. Department of Commerce revised downward its estimates of GNP growth to 1.3 percent at an annual rate from the 2.1-percent growth rate previously reported. The 1990 first quarter growth rate was higher than the 1.1 percent growth rate of the fourth quarter of 1989 but markedly lower than the 3.0 percent growth rate of the third quarter of 1989. The downward revision of the GNP growth rate reflected a decline in productivity of American workers during the first quarter of 1990.

Statistics released by the U.S. Department of Labor show that productivity of American workers, excluding that of farm workers, declined in the first quarter of 1990 at an annual rate of 2.7 percent, not at the 1.0 percent annual rate previously reported. This contrasts with a rise of 0.5 percent in productivity in 1989 fourth quarter. Labor costs, however, increased at an annual rate of only 4.5 percent in the first quarter, less than the 5.5 percent annual rate of increase in the fourth quarter of 1989. The decline in the 1990 first quarter non-farm productivity was caused mainly by productivity problems in the services sector. In fact, productivity in manufacturing actually grew at an annual rate of 4.9 percent. Moreover, unit labor costs in manufacture declined at a 1.3 percent annual rate in the first quarter of 1990 after rising by 2.7 percent in the fourth quarter of 1989.

Expected business expenditures have been revised downward. According to the U.S. Department of Commerce, U.S. business plans to increase spending for new plant and equipment by 6.7 percent in 1990. This is a downward revision from the planned increase of 7.8 percent reported in April 1990. Based on a projected increase of 1.1 percent in the implicit price deflator for plant and equipment from 1989 to 1990, real spending is expected to increase 5.5 percent in 1990 compared with a previously estimated annual increase of 7.9 percent. The decline in the projected real spending is due to both a downward revision in planned current dollar spending and an upward revision in the projected implicit price deflator. Real spending increased 1.8 percent in the first quarter of 1990, following a 0.6-percent increase in the fourth quarter of 1989. Real spending is expected to increase 1.1 percent in the second quarter, 0.7 percent in the third quarter and to decrease 0.4 percent in the fourth quarter.

In the foreign sector, the trade deficit seems to be gradually improving. The U.S. Department of Commerce reported that the U.S. quarterly trade deficit (on a balance of payments basis) shrank to $26.4 billion in the first quarter of 1990 from $28.7 billion in the fourth quarter of 1989. The 1990 first quarter deficit was the smallest since the fourth quarter of 1983. Both exports and imports set record increases. Exports grew 4.7 percent to $96.0 billion, while imports rose 1.6 percent to $122.4 billion. Imports of oil recorded the highest volume in over 12 years.

The 1990 first quarter current account deficit (which comprises merchandise and services trade and net income on foreign investment) also declined, to $22.9 billion from $26.4 billion in the fourth quarter of 1989. This was its lowest level in six years. A $6.3-billion surplus in services trade and a $600-million surplus in investment income caused the decline.

In addition, the U.S. merchandise trade deficit in April 1990 declined by $1.5 billion from March.

Economic Growth

The annualized rate of real economic growth in the United States in the first quarter of 1990 was 1.3 percent, revised downward from the previous estimate of 2.1 percent. The U.S. real growth rate in the fourth quarter of 1989 was 1.1 percent. The annualized rate of real economic growth in the first quarter of 1990 was 1.7 percent in the United Kingdom, 10.4 percent in West Germany, 2.8 percent in France. The annualized rate of real economic growth in the fourth quarter of 1989 was 1.8 percent in Italy, and 3.0 percent in Japan.

Industrial Production

U.S. industrial production increased by 0.6 percent in May after no change in April 1990. The May 1990 index was 1.3 percent higher than it was in May 1989. The May 1990 increase was due to a rebound in the production of motor vehicles and parts.

Capacity utilization in manufacturing, mining, and utilities rose by 0.3 percentage points in May, to 83.6 percent from 83.3 percent in April 1990. The rise was accounted for by an increase in the motor vehicles assembly utilization rates.

Other major industrial countries reported the following annual growth rates of industrial production: in the year ending April 1990, West Germany reported an increase of 2.6 percent. In the year ending March 1990, Japan reported an increase of 0.2 percent, France reported an increase of 1.9 percent, the United Kingdom reported an increase of 1.6 percent and Canada reported a decrease of 1.1 percent. In the year ending February 1990, Italy reported an increase of 3.1 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.2 percent in May from the previous month, and increased by 4.4 percent during the year ending May 1990.

During the 1-year period ended May 1990, consumer prices increased by 5.7 percent in Italy. During the year ended April 1990, consumer prices increased by 2.3 percent in West Germany, 5.0 percent in Canada, 9.4 percent in the United Kingdom, 3.2 percent in France and 2.5 percent in Japan.

Employment

The seasonally adjusted rate of unemployment in the United States (on a total labor force basis, including military personnel) remained unchanged in May at 5.3 percent.

In May 1990, West Germany reported 7.3 percent unemployment. In April 1990, Japan reported 2.1 percent unemployment, Canada reported 7.2 percent, the United Kingdom reported 5.6 percent, France reported 9.3 percent and Italy reported a 10.9 percent unemployment rate. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Table 1 shows macroeconomic projections for the U.S. economy for March 1990 to March 1991, by four major forecasters, and the simple average of these forecasts. Forecasts of all the economic indicators, except unemployment, are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter. The average forecasts point to mod-

Table 1
Projected quarterly percentage changes of selected U.S. economic indicators, 1990–91

Quarter	UCLA Business Forecasting Project	Merrill Lynch Capital Markets	Data Resources Inc.	Wharton E.F.A. Inc.	Mean of 4 fore-casts
GNP:[1]					
1990:					
April–June	7.1	5.4	7.3	7.3	6.8
July–September	5.0	6.3	5.0	5.5	5.4
October–December	5.7	5.9	5.3	5.8	5.7
1991:					
January–March	7.1	6.3	6.9	7.0	6.8
GNP:[2]					
1990:					
April–June	2.5	2.1	3.2	2.8	2.6
July–September	1.1	1.9	2.2	1.7	1.7
October–December	1.7	1.5	1.4	1.9	1.6
1991:					
January–March	2.6	1.7	2.7	2.5	2.4
GNP deflator index:					
1990:					
April–June	4.5	3.3	4.0	4.4	4.0
July–September	3.8	4.3	2.7	3.7	3.6
October–December	4.0	4.4	3.9	3.8	4.0
1991:					
January–March	4.4	4.5	4.1	4.4	4.3
Unemployment, average rate:					
1990:					
April–June	5.6	5.3	5.4	5.5	5.4
July–September	5.8	5.4	5.3	5.7	5.5
October–December	5.9	5.5	5.4	5.8	5.6
1991:					
January–March	5.9	5.5	5.4	5.8	5.6

[1] Current dollars.
[2] Constant (1982) dollars.

Note.—Percentage changes in the forecast represent compounded annual rates of change from the preceding period. Quarterly data are seasonally adjusted.

Source: Compiled from data published by The Conference Board. Used with permission.

est growth in the nominal and real growth rates of GNP in the remainder of 1990 followed by an upturn in the first quarter of 1991. The reasons for the modest growth in the remainder of the 1990 include anticipated continuation of the Federal Reserve's realtively tight monetary policy and the downward revision of planned spending by U.S. business in 1990. The average of the forecasts predicts a slight increase in the unemployment rate in the remainder of 1990 and the first quarter of 1991. Inflation (measured by the GNP deflator index) is expected to decline in the second quarter of 1990, then rise afterwards.

U.S. TRADE DEVELOPMENTS

Seasonally adjusted U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in the tabulation at the bottom of the page.

The seasonally adjusted U.S. merchandise trade deficit in current dollars declined in April by 17.9 percent to $6.9 billion from $8.4 billion in March 1990. The April 1990 deficit was 21.6 percent lower than the $8.8-billion average monthly deficit registered during the previous 12-month period, and 9.2 percent lower than the $7.6 billion deficit registered in April 1989.

In constant dollars, the trade deficit was 11.5 percent lower in April than in March 1990. The trade deficit on a three-month-moving average basis was 10.1 percent lower in April than in March 1990. The trade surplus in advanced technology products, however, declined by around 23.0 percent from $3.5 billion in March to $2.7 billion in April 1990. (Advanced technology products include about 500 products from recognized high-technology fields—for example, biotechnology—out of the universe of some 22,000 import commodity classification codes.)

The improvement in the U.S. merchandise trade deficit in April 1990 was the result of a considerably greater decline in imports than was recorded in exports. Seasonally adjusted exports (in current dollars) declined in April by 3.6 percent to $32.3 billion from $33.5 billion in March 1990. Meanwhile, imports declined by 6.2 percent, to $39.2 billion in April from $41.8 billion in March 1990.

Export changes on a monthly and cumulative year-to-date basis for specified sectors are shown in table 2. The April 1990 data show export increases in airplanes, organic and inorganic chemicals. Export decreases were registered in the remaining manufacturing sectors.

Sectors that recorded the highest increases in exports for the January–April 1990 period compared with the same period of 1989 included airplanes, textile yarns, fabrics and articles, vehicle parts, general industrial machinery, electrical machinery, telecommunications, specialized industrial machinery, scientific instruments, power generating machinery, airplanes parts, and automatic data processing equipment and office machinery. Organic and inorganic chemicals exports were down 8.5 percent, and iron steel and mill products exports were down 7.7 percent compared to last year.

The contributions of all sectors to total exports are shown in the table. The highest contributions to total exports were made by electrical machinery, automatic data processing and office machinery, and airplanes.

The largest import increases in April 1990 compared with March occurred in imports of airplanes (up 30.2 percent), and iron and steel mill products (up 7.6 percent). Import decreases occurred in automatic data processing equipment and office machines (down 7.6 percent), organic and inorganic chemicals (down 9.4 percent), electrical machinery (down 2.5 percent), general industrial machinery (down 7.5 percent), power generating machinery (down 4.0 percent), specialized industrial machinery (down 3.2 percent), and new cars from Japan (down 10.8 percent).

Meanwhile, the U.S. agricultural trade surplus declined to $1.4 billion in April from $1.8 billion in March 1990. The U.S. oil import bill declined to $3.8 billion in April from $ 4.8 billion in March 1990.

The United States experienced improvements in bilateral merchandise trade balances in April 1990 with Canada and the OPEC countries, and a worsening with Japan and the NICs. The U.S. trade deficit with Canada declined to $8.3 million from $29.8 million; the deficit with OPEC declined to $1.4 billion from $1.8 billion. In contrast the deficit with Japan increased to $3.9 billion from $3.6 billion, and the deficit with the NICs increased to $1.4 billion from $900 million. In other areas, the trade surplus with the U.S.S.R. increased from $340 million to $396 million. The trade surplus with the EC climbed to $1.4 billion from $1.0 billion.

	Exports		*Imports*		*Trade balance*	
	March 90	*April 90*	*March 90*	*April 90*	*March 90*	*April 90*
Current dollars	33.5	32.3	41.8	39.2	-8.4	-6.9
1987 dollars	31.0	29.9	38.8	36.8	-7.8	-6.9
Three-month-moving average	32.4	32.5	40.3	39.7	-7.9	-7.1
Advanced technology products (not seas. adj.)	8.5	7.4	4.9	4.7	3.5	2.7

Table 2
U.S. exports, not seasonally adjusted, of specified sectors, by specified periods, January 1989–April 1990

Sector	Exports: January-April 1990	Exports: April 1990	Change: January-April 1990 over January-April 1989	Change: April 1990 over March 1990	Share of total: January-April 1990	Share of total: April 1990
	Billion dollars		Percent			
Manufactures						
ADP equipment & office machinery	8.2	1.9	10.3	-20.8	6.3	5.9
Airplanes	6.6	1.7	57.6	9.9	5.0	5.1
Airplane parts	3.2	0.8	14.1	-7.9	2.4	2.4
Electrical machinery	9.1	2.3	18.3	-9.4	7.0	7.0
General industrial machinery	5.2	1.3	24.9	-6.5	4.0	4.1
Iron and steel mill products	1.0	0.2	-7.7	-3.4	0.8	0.8
Organic & inorganic chemicals	4.7	1.3	-8.5	6.6	3.6	4.0
Power generating machinery	5.2	1.2	11.6	-17.0	4.0	3.7
Scientific instruments	4.0	1.0	12.7	-14.3	3.0	3.0
Specialized industrial machinery	5.1	1.3	14.8	- 8.2	4.0	4.1
Telecommunications	2.8	0.7	18.2	- 7.0	2.2	2.2
Textile yarns, fabrics and articles	1.6	0.4	30.0	- 6.9	1.2	1.3
Vehicle parts	4.7	1.2	26.0	-13.2	3.6	3.6
Other manufactured goods	7.4	1.9	10.7	-0.9	5.7	5.8
Other	29.2	7.7	-5.8	-6.6	22.4	23.4
Total manufactures	98.0	24.9	8.6	-7.5	75.3	76.2
Agriculture	4.4	3.3	0.7	-17.4	11.1	10.1
Other exports	17.7	4.5	16.1	-10.1	13.6	13.7
Total exports	30.1	32.7	8.6	-9.0	100.0	100.0

Note: Detail lines may not add to totals because of rounding.

Source: U.S. Department of Commerce News (FT 900), April 1990.

INTERNATIONAL TRADE DEVELOPMENTS

The United States Continues Pressure on China to Strengthen Protection of Intellectual Property Rights

For more than a year, China's failure to adequately and effectively protect U.S. intellectual property rights (IPR) has been a major issue in bilateral relations between the two countries. In January 1989, the United States refused to renew the 1979 Science and Technology (S&T) agreement with China for a third 5-year term because China would not commit itself to provide copyright protection for computer programs and other IPR made accessible to Chinese participants in cooperative exchanges under the agreement. This action was followed by the initiation of unrelated but similar discussions between the Office of the United States Trade Representative and China's Ministry of Foreign Economic Relations and Trade that led to the signing of a Memorandum of Understanding (MOU) in May 1989. In the MOU, the Chinese Government made specific commitments, subject to U.S. monitoring of its progress, to develop both a copyright law that would include protection of computer software and improved patent legislation that would include important areas not covered in the patent law passed by China in 1984.

Both the United States and China have derived considerable benefit from cooperative exchanges under the 29 protocols, or working agreements, activated under the bilateral S&T framework agreement. However, the relationship has been of particular importance to China since advancement in science and technology continues to be a top priority in carrying out its modernization program. Rather than allow the agreement to lapse as scheduled on January 31, 1989, Chinese officials agreed to work with the Department of State to develop an IPR annex to the agreement that would meet U.S. requirements. The United States initially agreed to a 9-month extension of the agreement, until October 31, 1989. As a result of progress made in negotiations during that time, the agreement was again extended, for a period of 6 months. In late April, the United States agreed to yet another extension, until April 30, 1991, in the expectation that the IPR annex could be concluded within a year. When the annex is incorporated, the agreement will be renewed for 5 years.

The discussions leading to the MOU signed by the United States and China in May of last year were a direct result of the "Special 301" provisions of the Omnibus Trade and Competitiveness Act of 1988. These provisions require the United States Trade Representative (USTR) to identify annually countries that deny adequate

and effective IPR protection or that deny fair and equitable market access to U.S. firms relying on such protection. Because of progress made in negotiations with a number of countries during early 1989, Ambassador Hills decided not to designate any country a so-called "priority country" under the "Special 301" provisions last year. Such an action, as a rule, would trigger an investigation possibly leading to trade sanctions. Instead, she placed 17 countries on a "watch list," and 8 countries, including China, on a "priority watch list."

The MOU concluded between the United States and China as part of the "Special 301" process not only committed China to make specific improvements in its IPR protection, but also specified that certain steps must be taken by no later than November 1, 1989. Because of its lack of progress, China was one of five countries not removed from the "priority watch list" at that time. It still remained on the list when the status of these countries was again reviewed in late April of this year. In making the announcement, the Office of the USTR noted that China had neither passed a copyright law nor improved its patent protection.

U.S. officials acknowledge, however, that China is making some progress. In December 1989, the draft of a copyright law was submitted to the National People's Congress (NPC), China's legislative body, for review and final approval. This draft—which covers important areas not included in earlier drafts, such as protection for computer software—is still undergoing revision in the NPC. China is also working on revising its patent law, which now excludes from protection products such as pharmaceuticals and agricultural chemicals. It is therefore quite likely that China will be prepared to provide substantially better IPR protection within the next few months. If the Chinese continue to fail to meet their commitments under the MOU, however, the United States has the option of designating China a "priority country" and possibly imposing trade sanctions.

Mexico Ponders International Trade Strategy

U.S. authorities and academicians have been speculating about the possibility of a free-trade agreement with Mexico since the early 1980s. However, although United States-Mexican economic relations have markedly improved in the past few years, Mexico had consistently refused to consider such an accord with the United States. It therefore came as a big surprise in April this year when high-ranking officials from the two countries reportedly began talking about moving in this direction.

Initially, the Mexican Embassy in Washington denied U.S. press reports that talks on a free-trade agreement are planned, and the United States Trade Representative did not formally acknowledge such plans either. Nonetheless, a change in the Mexican outlook on this matter is clearly in evidence. Although Mexican President Salinas de Gortari does not publicly advocate a free-trade agreement with the United States, his Cabinet officers openly discuss this option.

The Salinas Government is currently involved in developing a worldwide trade strategy, and in this process Mexican officials have necessarily considered the option of concluding a free-trade agreement with the United States. On April 25, the Mexican Senate opened a series of hearings for a "National Consultation on Trade Relations between Mexico and the World," soliciting feedback from many interest groups, including private entrepreneurs, labor representatives, and academicians. These sessions, although they covered Mexico's trade relations with all parts of the world, served to highlight the towering importance of the United States in Mexico's overall foreign trade—70 percent of the total.

Mexico's resistance to a free trade agreement with the United States has been largely based on the argument that the developing Mexican economy needs protection against direct competition from goods and capital from its highly industrialized neighbor. Mexico's historic rigidly protectionist stance and import-substition development strategy has changed dramatically since 1985. That year, the Mexican Government started negotiations to join the General Agreement on Tariffs and Trade (GATT), and the following year Mexico became a Contracting Party to the GATT.

Until very recently however, a bilateral free-trade accord with the United States (or participation in a North American free trade arrangement) remained inconceivable on the Mexican side. The view that without appropriate trade and investment restrictions Mexico would be overpowered by the economically much stronger United States is still held in many circles. Some fear that economic domination could threaten Mexico's sovereignty and independence.

The relatively sudden apparent softening of the Mexican attitude toward a trade agreement with the United States is widely attributed to the dramatic developments that have taken place in the Soviet Union and Eastern Europe. The Salinas government now believes that to achieve economic growth Mexico needs large inflows of foreign capital and technology, most of which is bound to come from the United States. According to analysts, Mexico became concerned that the dismantling of communism in Europe might now deflect U.S. trade and investment interests away from its southern neighbors. Also, observers believe that the strengthening regional linkages among European and Western Pacific countries have recently made Mexico more sensi-

tive to challenges that regional economic groupings now pose to all North American economies.

In addition to these external factors, its own internal economic changes should now enable Mexico to accept more easily the once taboo concept of special trade arrangements with the United States. The Mexico of today, in which many trade and investment restrictions have already been dismantled as a result of the GATT accession, is in far better condition to adjust to special regional arrangements than the isolationist Mexico of only a few years ago.

While Mexico appears to be slowly thawing to the idea of closer regional economic ties, the U.S. Government is doing its own homework to gear up for possible negotiations. The United States International Trade Commission (USITC) recently issued a "Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States-Mexican Relations" (USITC Publication 2275.) In a second phase of this effort, the USITC is currently surveying the views of recognized authorities on U.S.-Mexico relations on options for the future direction of the bilateral relationship, which might include a free-trade arrangement.

The USITC, which is conducting this investigation at the request of the House Committee on Ways and Means under section 332(g) of the Tariff Act of 1930, has held public hearings on this subject in Las Cruces, NM, Tucson, Az., and McAllen, Tx. Related efforts are reportedly under way in other agencies of the U.S. Government with international trade responsibilities.

GSP Program in 1989— After the Asian Tigers

The U.S. Generalized System of Preferences (GSP) is a temporary tariff preference scheme designed to offer nonreciprocal duty-free treatment for designated articles imported from beneficiary developing countries, provided that at least 35 percent of their value is added in the beneficiary country. The primary purpose of the GSP is to promote the economic growth and industrialization of beneficiary developing countries by helping these countries become more competitive in U.S. markets and diversify their economic structures away from production of primary goods. In 1989, GSP benefits were afforded to about 135 countries on approximately 4,150 products (based on the HTS tariff classification).

In 1989, U.S. imports totaling $24.3 billion were nominally eligible for duty-free treatment under the GSP program. Duty-free treatment was withheld from $9.1 billion worth of these imports under the program's statutory competitive-need exclusions. Of the remaining $15.2 billion in GSP-eligible imports, $10.0 billion actually entered the United States duty-free under the program, down from $18.4 billion a year earlier. (Some imports that are GSP-eligible are also eligible for, and enter the United States under, other programs such as the CBERA and United States-Israel FTA.)

The substantial decline in GSP duty-free imports in 1989 is attributable principally to the removal of four of the program's top five beneficiaries (Taiwan, the Republic of Korea, Hong Kong, and Singapore) effective January 1, 1989, because of their levels of economic advancement. In 1988, these four Asian Newly Industrialized Economies (NIEs) collectively accounted for $9.9 billion, or over one-half, of total GSP duty-free imports.

Although the total value of GSP duty-free imports shrank in 1989, GSP imports from the remaining beneficiaries, as a group, recorded an 18 percent increase over those of the previous year. In 1989, GSP imports receiving duty-free access to the United States represented 41 percent of the value of imports all eligible products; GSP accounted for 11 percent of total imports from beneficiary countries and 2 percent of U.S. imports from the world.

The list of leading GSP beneficiaries in 1989 also reflects the loss of program benefits by the four Asian NIEs. The top 10 beneficiaries last year in descending order of GSP duty-free imports were Mexico, Brazil, Malaysia, Thailand, Philippines, Israel, India, Argentina, Yugoslavia, and Venezuela. GSP duty-free imports from these beneficiaries combined amounted to $8.2 billion in 1989, or 82 percent of all U.S. imports that received duty-free treatment under the program.

In 1989, Mexico accounted for $2.5 billion, or 25 percent, of the value of GSP duty-free imports, and became the top GSP beneficiary after occupying third position (after Taiwan and the Republic of Korea) in 1988. GSP imports from Mexico constitute a small portion (9 percent) of total U.S. imports from that country. One reason for the low ratio of GSP duty-free imports to total imports for Mexico is the dominance of petroleum in the composition of U.S. imports from that country. Petroleum is not a GSP-eligible article. Nonetheless, the value of GSP duty-free imports from Mexico grew by 13 percent in 1989.

GSP duty-free imports from Brazil decreased by 11 percent in 1989, although the country was the second-largest GSP beneficiary with $1.2 billion worth of imports entering the United States under the program. Of the top 10 beneficiaries, Malaysia (third) and Thailand (fourth) experienced the most dramatic growth under the program. GSP duty-free imports from each country totaled about $1.0 billion, representing increases of 65 percent and 41 percent, respectively, over the prior year.

Removal of the four Asian NIEs from the program also affected the composition of imports en-

tering duty-free under the GSP program last year. Based on the eight-digit HTS tariff classification system, cane sugar (HTS item 1701.11.00) was the leading GSP import in 1989 ($380.2 million) followed by jewelry of precious metal other than silver (HTS item 7113.19.50), wooden furniture other than bent-wood (HTS item 9403.60.80), leather footwear uppers (HTS item 6406.10.65), Christmas tree lighting sets (HTS item 9405.30.30), and artificial flowers (HTS item 6702.90.40). In contrast, four of the top six GSP imports for 1988 were electronic and mechanical goods, such as switchboards, air-conditioners, telephone sets, and data processing machines, originating principally from the Asian NIEs.

In announcing a record expansion of program benefits this past spring, following the 1989 GSP annual review, the United States Trade Repreesentative Carla Hills cited a greater flexibility in administering the program, made possible by the removal of Taiwan, the Republic of Korea, Hong Kong, and Singapore. GSP benefits were increased by adding or restoring GSP eligibility to $1.4 billion worth of imports (based on 1989 trade.) In addition, imports totaling $997.5 million will continue to receive GSP eligibility through either a waiver of the competitive-need restrictions or because the value of the imports was below a trigger level. By comparison, the previous year's annual GSP review resulted in added, restored or continued GSP eligibility for imports valued at only $184.3 million.

With the 1989 annual review results, the USTR also indicated that the previous policy of denying redesignation to the most advanced GSP beneficiaries had changed. Mexico benefited the most as a result of the program's 1989 review with GSP eligibility being either added, restored, or continued for imports valued at almost $2.0 billion in 1989 trade. This includes 209 Mexican products, valued at $1.3 billion, that were redesignated as GSP-eligible in response to the "impressive changes in Mexico's trade practices over the past 2 years and its status as a developing country."

Country coverage of the GSP program has also continued to change. Following the dramatic political events in Eastern Europe last fall, Hungary and Poland were granted GSP eligibility effective November 3, 1989, and January 9, 1990, respectively. Panama was reinstated as a GSP beneficiary effective March 17, 1990, following the ouster of Manuel Noriega in late 1989. As a result of the 1989 annual review, GSP benefits for Liberia are to be suspended indefinitely effective July 1, 1990, for its failure to take steps to afford "internationally recognized worker rights." (Burma and the Central African Republic were suspended on July 1, 1989 for the same reason.) Thailand and Indonesia were reviewed on the same basis, but were found to meet the program's eligibility standards. Reviews of worker rights in Syria, Benin, the Dominican Republic, Haiti, and Nepal were extended for another year.

Legislation to Ensure Role for Congress in Extending MFN Status to Nonmarket Economy Countries

The Trade Act of 1974 continued the U.S. policy of denying most-favored-nation (MFN) or nondiscriminatory tariff status to all nonmarket economy countries (NMEs) not having this status at the time of law's enactment (i.e., all except Yugoslavia, which is longer considered an NME, and Poland). Section 402 of the act, however, makes an NME eligible to receive MFN status under either of two conditions: (1) if the President reports to the Congress that the country does not engage in certain emigration-restricting practices—the freedom-of-emigration requirement or Jackson-Vanik amendment; or (2) if the President waives full compliance with the freedom-of-emigration requirement with respect to that country after determining that a waiver will promote the objectives of the Jackson-Vanik amendment.

Three NMEs have been extended MFN status under waivers of the freedom-of-emigration requirement: Romania in 1975, Hungary in 1978, and China in 1980. (Romania renounced its MFN status in February 1988, and Hungary was granted nonwaiver status in October 1989 after passing legislation that complied with the freedom-of-emigration requirement.) Moreover, President Bush waived the Jackson-Vanik amendment with respect to Czechoslovakia in February 1990, and the granting of MFN status to that country now awaits congressional approval of a bilateral trade agreement signed in April.

Provisions in the Trade Act of 1974 give the Congress a role both in the process of initially granting MFN status to an NME and in the process of deciding whether a waiver in effect for a specific country should be continued. After waiving a country's full compliance with the Jackson-Vanik requirements and concluding a bilateral trade agreement that contains, among other things, a provision for the reciprocal extension of MFN tariff treatment, the President is required to transmit the agreement and a proclamation granting the MFN status to the Congress, which must approve both documents by a concurrent resolution. Following the extension of MFN status to an NME under the waiver authority, the waiver for that country must be renewed every 12 months (effective July 3 of each year). The Act provides for the Congress to play a role in this process by making the President's annual recommendation to continue any waivers in effect subject to possible Congressional disapproval by a one-House resolution.

The roles that Congress by law plays in the initial extension of MFN status to an NME and in the annual waiver renewal procedure have been

subject to doubt as to their constitutionality since a ruling by the Supreme Court in 1983. In the case of *Immigration and Naturalization Service v. Chadha*, the court held unconstitutional a one-House legislative veto provision in the Immigration and Nationality Act. This decision cast doubt on the validity of all legislative veto devices that can be used by the Congress to either confirm or reverse an action by the President short of enacting legislation and presenting it to the President for his signature. Both the concurrent resolution approving the initial trade agreement and the one-House resolution that can be used between July 3 and August 31 of each year to disapprove the President's recommendation to continue any waiver(s) under the Jackson-Vanik amendment are in the nature of legislative vetoes. Unlike bills and joint resolutions, neither of these forms of Congressional action are presented to the President for approval and are therefore, since the Chadha decision, they appear to be subject to possible challenge in the courts.

A trade bill now in conference in the Congress (The Customs and Trade Act of 1990—H.R. 1594) contains a provision to amend the Trade Act of 1974 by changing both types of resolutions to joint resolutions. This amendment would remove any doubt as to the constitutionality of the procedure for approving or disapproving the President's action in granting and maintaining in force the MFN status of an NME country. It would, on the other hand, expose a resolution disapproving the annual renewal of the waiver authority to Presidential veto and the need to override that veto.

The advantage of restoring the constitutional validity of Congressional action under the Trade Act of 1974 is the "fast-track" mechanisms that it provides, which include time limits on committee and floor action. The 1974 trade act provides that the Congress, for example, must adopt a resolution disapproving the annual extension of the President's general waiver authority and any waivers in effect within 60 calendar days after the expiration of the previous authority (i.e., by August 31 of each year). The alternative to this "fast-track" procedure (which the Senate version of the current bill would change from 60 to 105 days) is the passage of a bill, which could be a much longer process.

From 1983 until recently, the doubtful constitutionality of the role of Congress in these procedures was not a major issue. However, a number of members of Congress strongly oppose President Bush's decision, announced on May 24, 1990, to extend the waiver in effect for China. As of late June, there were reportedly 14 bills and joint resolutions in the Congress containing provisions to terminate China's MFN status, either outright or by disapproving the extension of the waiver authority with respect to China. The fast-track procedure could be used to adopt one of these current joint resolutions if the amendment changing the one-House resolution of disapproval to a joint resolution could be enacted in time for the disapproval process to be completed by August 31 (or a later date enacted by the pending amendment). Enactment of the amendment is also required to give the Congress a voice in the forthcoming granting of MFN status to Czechoslovakia (and other East European countries) and the Soviet Union.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1987-May 1990

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1987	1988	1989	1989 II	1989 III	1989 IV	1990 I	1990 Jan	1990 Feb.	1990 Mar.	1990 Apr.	1990 May
United States	4.9	5.4	2.6	2.9	-1.3	0.2	0.7	-14.4	11.8	8.1	0	8.0
Japan	3.4	9.5	6.0	0.0	0.8	2.9	3.5	1.0	4.1	39.7	-10.2	31.3
Canada	2.7	4.4	2.3	1.3	-0.2	-1.9	1.7	0.9	8.6	1.8	0	3.7
West Germany	0.2	3.2	5.3	4.8	1.4	8.4	8.9	19.4	-3.1	22.8	-25.9	(1)
United Kingdom	3.4	3.6	0.8	-0.7	6.1	0.2	-0.2	-5.3	-7.4	26.9	5.5	(1)
France	2.1	4.4	3.8	8.7	1.2	-1.2	-1.8	11.2	-19.1	-5.9	17.5	(1)
Italy	2.6	6.9	3.7	3.7	9.4	0.6	-6.0	-35.8	17.7	7.3	-6.8	(1)

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, July 13, 1990.

Consumer prices, by selected countries and by specified periods, January 1987-May 1990

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1987	1988	1989	1989 I	1989 II	1989 III	1989 IV	1990 I	1990 Jan	1990 Feb.	1990 Mar.	1990 Apr.	1990 May
United States	3.7	4.1	4.8	5.4	6.0	2.8	4.0	8.1	14.1	5.8	5.8	1.9	1.9
Japan	0.1	0.7	2.3	-2.2	9.8	0.6	2.6	0.9	2.3	3.5	4.7	9.5	8.2
Canada	4.4	4.0	5.0	5.1	6.1	5.4	3.9	6.1	11.5	4.7	3.6	1.3	1.9
West Germany	0.2	1.3	2.8	3.8	3.4	1.9	3.0	2.6	2.7	3.1	2.5	0.8	1.3
United Kingdom	4.1	4.9	7.8	7.8	8.3	6.5	7.6	8.7	8.8	5.8	14.4	26.1	12.7
France	3.3	2.7	3.5	3.7	3.9	2.9	3.9	3.1	2.7	3.0	3.5	1.6	2.5
Italy	4.6	5.0	6.6	-3.9	7.5	5.6	5.9	5.8	5.2	6.6	5.7	4.9	5.0

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, July 13, 1990.

Unemployment rates, (total labor force basis)[1] by selected countries and by specified periods, January 1987-May 1990

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1987	1988	1989	1989 I	1989 II	1989 III	1989 IV	1990 I	1990 Jan	1990 Feb.	1990 Mar.	1990 Apr.	1990 May
United States	6.1	5.4	5.2	5.1	5.2	5.2	5.3	5.2	5.2	5.2	5.1	5.3	5.3
Japan	2.9	2.5	2.3	2.4	2.3	2.2	2.2	2.1	2.2	2.2	2.0	2.1	2.1
Canada	8.8	7.7	7.5	7.5	7.6	7.3	7.5	7.5	7.8	7.6	7.1	7.2	7.6
West Germany	6.2	6.2	5.6	5.8	5.7	5.6	5.5	5.3	5.4	5.3	5.2	5.2	5.2
United Kingdom	10.2	8.2	6.4	7.0	6.5	6.2	5.8	6.1	5.7	6.1	6.1	6.1	6.1
France	10.5	10.1	9.9	9.9	9.9	9.9	9.8	9.4	9.8	9.8	9.4	9.3	9.3
Italy	7.7	7.8	7.7	7.6	7.8	7.7	7.5	7.2	(2)	(2)	(2)	(2)	(2)

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with U.S. rate.

[2] Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

Source: *Unemployment Rates in Nine Countries*, U.S. Deapartment of Labor, July 1990.

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Money-market interest rates,[1] by selected countries and by specified periods, January 1987–April 1990

(Percentage, annual rates)

Country	1987	1988	1989	1989 I	1989 II	1989 III	1989 IV	1990 I	1990 II	Mar.	Apr.	May	Jun
United States	7.0	7.8	9.3	9.7	9.7	8.9	8.6	8.4	8.4	8.5	8.5	8.3	8.2
Japan	3.9	4.4	5.3	4.9	5.1	5.4	5.6	6.2	([2])	6.3	([2])	([2])	([2])
Canada	8.4	9.6	12.2	11.7	12.3	12.3	12.4	12.8	([2])	13.3	13.5	([2])	([2])
West Germany	4.0	4.3	7.0	6.2	6.8	7.2	8.3	8.4	8.4	8.4	8.3	8.4	([2])
United Kingdom	9.6	8.9	13.3	13.0	13.5	14.0	15.2	15.2	15.2	15.2	15.2	15.2	([2])
France	8.1	7.9	9.2	9.0	8.8	9.2	10.3	11.0	9.9	10.6	10.1	9.7	([2])
Italy	11.2	11.0	12.7	12.4	12.5	12.9	13.3	13.3	12.8	12.8	12.6	12.9	([2])

[1] 90-day certificate of deposit.
[2] Not available.

Source: *Federal Reserve Statistical Release, April 2, 1990 Economic and Energy Indicators*, Central Intelligence Agency, July 13, 1990.

Effective exchange rates of the U.S. dollar, unadjusted for inflation differential, by specified periods, January 1987–March 1990

(Percentage change from previous period)

Item	1987	1988	1989	1989 III	1989 IV	1990 I	1990 II	Feb.	Mar.	Apr.	May	Jun
Unadjusted:												
Index[1]	94.1	88.0	91.3	92.8	91.0	89.6	89.7	89.1	90.6	90.4	89.4	89.4
Percentage change	-11.2	-6.5	6.4	0.3	-1.9	-.4	0.1	0.1	1.6	-.2	-1.2	0
Adjusted:												
Index[1]	91.8	87.4	91.8	93.0	91.8	90.5	90.5	90.0	91.6	91.3	90.1	90.0
Percentage change	-10.6	-4.8	6.8	0.1	-1.1	-2.4	0	0.1	1.7	-.2	-1.2	-.1

[1] 1980-82 average=100.

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 15 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: Morgan Guaranty Trust Co. of New York, July 1990.

Trade balances, by selected countries and by specified periods, January 1987–May 1990

(In billions of U.S. dollars, f.o.b. basis, at an annual rate)

Country	1987	1988	1989	1989 III	1989 IV	1990 I	Jan	Feb.	Mar.	Apr.	May
United States[1]	-152.1	-118.5	-108.7	-107.2	-112.9	-102.6	-122.4	-85.1	-100.4	-87.6	-92.7
Japan	96.3	94.9	77.3	76.8	57.2	64.8	52.8	64.8	76.8	43.2	48.0
Canada	8.6	8.0	6.4	3.6	.8	6.0	7.2	2.4	10.8	1.2	([3])
West Germany[2]	65.7	72.7	72.1	74.4	65.2	88.8	109.2	79.2	79.2	66.0	76.8
United Kingdom	-16.9	-36.9	-37.9	-40.8	-27.6	-36.0	-39.6	-27.6	-40.8	-36.0	-31.2
France	-5.2	-5.4	-6.6	-8.0	-8.4	-1.6	-1.2	-2.4	-2.4	-9.6	-12.0
Italy	-8.3	-10.7	-12.8	-12.0	-9.6	-14.8	-20.4	-12.0	-12.0	-10.8	-20.4

[1] 1986, exports, f.a.s. value, adjusted; imports, c.i.f. value, adjusted. Beginning with 1987, figures were adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f. value.

[2] Imports, c.i.f. value, adjusted.

[3] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, July 13, 1990, and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, July 17, 1990.

U.S. trade balance,[1] by major commodity categories, and by specified periods, January 1987–May 1990

(Percentage, annual rates)

Country	1987	1988	1989	1989 III	1989 IV	1990 I	Jan	Feb.	Mar.	Apr.	May
Commodity categories:											
Agriculture	7.0	13.9	17.9	3.5	5.1	4.9	1.6	1.4	1.8	1.4	1.3
Petroleum and selected products (unadjusted)	-39.5	-38.1	-44.7	-11.4	-11.4	-14.1	-5.4	-4.3	-4.3	-3.4	-4.0
Manufactured goods	-146.1	-146.1	-103.2	-27.1	-27.7	-19.4	-7.7	-5.5	-6.3	-6.1	-6.5
Selected countries:											
Western Europe	-27.9	-12.5	-1.3	-.3	-.6	1.4	-.3	.9	.7	1.3	.8
Canada3	-11.5	-9.7	-9.6	-2.2	-2.8	-.9	-.6	-.2	-.1	.04	-.5
Japan	-58.0	-51.7	-49.0	-12.0	-12.2	-9.6	-2.8	-3.1	-3.6	-3.9	-2.9
OPEC (unadjusted)	-13.7	-8.9	-17.3	-5.0	-4.3	-1.8	-2.6	-2.0	-6.5	-1.4	-1.7
Unit value of U.S. imports of petroleum and selected products (unadjusted)	$15.02	$18.12	$16.80	$16.38	$17.46	$19.26	$20.13	$19.39	$18.18	$16.57	$15.57

[1] Exports, f.a.s. value, unadjusted 1986–88 imports, c.i.f. value, unadjusted; 1989 imports, customs value, unadjusted.

[2] Beginning with February 1987, figures include previously undocumented exports to Canada.

[3] Beginning with 1988, figures were adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally unadjusted, rather than c.i.f. value.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, July 17, 1990.

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